Council of the
European Union

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SOC 10
EMPL 10
COMPET 4
ENV 9
EDUC 5
RECH 3
ENER 3
JAI 19

LEGISLATIVE ACTS AND OTHER INSTRUMENTS

Subject:	COUNCIL RECOMMENDATION on the economic policy of the euro area

COUNCIL RECOMMENDATION

of …

on the economic policy of the euro area

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 136, in conjunction with Article 121(2) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 5(2) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances[2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

1 OJ L 209, 2.8.1997, p. 1.
2 OJ L 306, 23.11.2011, p. 25.

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Economic Policy Committee, Whereas:

(1) According to the Commission's 2015 autumn economic forecast, the economic recovery continues at a moderate pace in the euro area. Sustaining and strengthening growth in the euro area requires continued policy efforts to support a balanced adjustment in the private and public sectors, improve the adjustment capacity and increase the economy's competitiveness and growth potential in the medium to long term. The pace of growth is hampered by legacies of the most recent economic and financial crises, including ongoing external rebalancing, high levels of public and private debt, high unemployment, as well as persistent structural rigidities in national labour and product markets. Investment remains weak on account of these factors, but also of other bottlenecks, such as unfavourable business environments, public-administration inefficiencies as well as obstacles to access to finance.

(2) The implementation of ambitious structural reforms that raise productivity and boost growth potential needs to be bolstered in line with the policy priorities set out in the Commission's 2016 Annual Growth Survey for all Member States. If carried out jointly across Member States, structural reforms can offer benefits to the euro area as a whole through positive spillover effects, in particular through trade and financial channels. Despite some progress with reforms to improve the resilience of labour markets, significant divergences persist across the euro area, especially as regards long-term and youth unemployment rates. Those Member States that pursued comprehensive labour market and social protection reforms prior to the crisis have been able to better support employment and preserve fairness during the economic downturn. Such reforms encompass flexible and reliable contractual arrangements, comprehensive lifelong learning strategies, effective active labour market policies, and adequate and sustainable social protection systems. Also, reducing the tax wedge on labour, in particular for low-income earners, and ensuring equitable tax systems can improve outcomes.

(3) An appropriate development and swift implementation of reforms can help in addressing existing imbalances in the euro area and in preventing the build-up of new ones. The thematic discussions within the Eurogroup, with increased focus on benchmarking, pursuing best practices and peer pressure, can contribute to promoting convergence towards best performance. The Eurogroup should therefore further strengthen the thematic discussions on reforms in areas that are essential for the functioning of Economic and Monetary Union (EMU) and regularly monitor the implementation of reforms by euro area Member States as well as the progress made with the correction of imbalances in the context of the macroeconomic imbalances procedure.

(4) Fiscal policies are a matter of vital common interest in EMU. Responsible national fiscal policies that respect the common fiscal rules are essential to support debt sustainability and allow the fiscal stabilisers to operate and cushion country specific shocks. In addition, it is essential to achieve an appropriate fiscal stance at the level of the euro area as a whole reflecting a balance between long-term fiscal sustainability and short-term macroeconomic stabilisation, and to avoid pro-cyclical fiscal policies. The fiscal effort needed varies depending on Member States' respective positions with regard to the requirements under the Stability and Growth Pact (SGP), and Member States should also consider stabilisation needs and take into account possible spillovers across the euro area. This calls for a reinforcement of the coordination of fiscal policies within the euro area in full respect of the SGP. In this context, the broadly neutral aggregate fiscal stance in the euro area expected in 2016 appears appropriate in light of the overall macroeconomic conditions and downside risks to growth. As regards 2017, based on the forecast of a gradually closing output gap, fiscal policies should avoid pro-cyclicality and reduce public debt in order to restore fiscal buffers. This should be reflected in the preparations of the updated stability programmes in spring 2016, taking into account the latest economic and fiscal developments. The composition of fiscal strategies is not yet sufficiently growth-friendly. As highlighted in the Council Recommendation to the euro area Member States[1] adopted on 14 July 2015, euro area Member States should hold thematic discussions on improvements in the quality and sustainability of public finances.

[1] Council Recommendation of 14 July 2015 on the implementation of the broad guidelines for the economic policies of the Member States whose currency is the euro (OJ C 272, 18.8.2015, p. 98).

(5) The Banking Union needs to be fully implemented. First, Directive 2014/59/EU of the European Parliament and of the Council[1] ('Bank Recovery and Resolution Directive') is to be fully transposed without further delay by all Member States. Second, a fiscally neutral common backstop to the Single Resolution Fund (SRF) will be developed during the transitional period as defined in Regulation (EU) No 806/2014 of the European Parliament and of the Council[2], and will be fully operational by the end of the transitional period, when resources of the SRF are fully mutualised. Progress shall be reviewed soon after the entry into force of the SRF. The common backstop also will be fiscally neutral over the medium term and will ensure equivalent treatment across all participating Member States, as well as incurring no costs for Member States not participating in the Banking Union. Once the SRF enters into force and when participating Member States have ratified the intergovernmental agreement and fully transposed the Bank Recovery and Resolution Directive, Member States will take stock of the establishment of the bridge financing arrangements and consider the way forward and timing regarding the work on the common backstop, to ensure that it will be fully operational by the end of the transitional period. Member States will also reflect further in 2016 on measures needed to continue deepening the Banking Union. Finally, as part of the further development of the Banking Union, the Commission issued on 24 November 2015 its communication entitled 'Towards the Completion of the Banking Union'.

1 Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council (OJ L 173, 12.6.2014, p. 190).

2 Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010 (OJ L 225, 30.7.2014, p. 1).

(6) Financial market conditions remain overall favourable in the euro area, against the background of an accommodative monetary policy stance. However, the still weak economic fundamentals and high leverage in the private sector continue to weigh on demand for bank lending, and thereby economic growth. Banks' balance sheets remain under pressure from high levels of non-performing loans, hampering lending activity. Diverse and sometimes inadequate insolvency regimes in the Union contribute to delaying the reduction of private sector debt, holding back investment.

(7) Notwithstanding the recent achievements in strengthening the EMU architecture, work must continue to complete it. The Five Presidents' Report 'Completing Europe's Economic and Monetary Union' of 22 June 2015 prepared by the President of the European Commission, in close cooperation with the Presidents of the European Council, of the European Central Bank, of the Eurogroup and of the European Parliament, sets out the way ahead to complete EMU by 2025. On 21 October 2015, the Commission adopted, jointly with the European Parliament, the Council and the European Central Bank, a 'Communication on steps towards Completing Economic and Monetary Union', which contains a first set of follow-up proposals to the Five Presidents' report. The euro area Member States should take collective ownership and move ahead in a timely, open and transparent manner, with the implementation of short and medium-term initiatives towards the completion of EMU. With a view to promoting convergence across the euro area, the proposals include measures to strengthen the euro area dimension of the European Semester by, inter alia, an earlier publication of the euro area recommendations, with a view to identifying common challenges early on in the process and to reflecting this in the formulation of country-specific recommendations for the euro area Member States to be adopted later in the European Semester. The euro area Member States should also work, in an open and transparent manner, on more long-term initiatives towards the completion of EMU,

HEREBY RECOMMENDS that in the period 2016-2017, euro area Member States take action within the Eurogroup, individually and collectively, to:

1. Pursue policies that support the recovery, foster convergence, facilitate the correction of macroeconomic imbalances and improve adjustment capacity. To this end, Member States, particularly those with large stocks of private and foreign debt, are to implement reforms that enhance productivity, foster job creation, raise competitiveness and improve the business environment. Member States with large current account surpluses are to implement as a priority measures, including structural reforms, that help strengthen their domestic demand and growth potential.

2. Implement reforms that combine: (i) flexible and reliable labour contracts that promote smooth labour market transitions and avoid a two-tier labour market; (ii) comprehensive lifelong learning strategies; (iii) effective policies to help the unemployed re-enter the labour market; (iv) adequate and sustainable social protection systems that contribute effectively and efficiently throughout the life cycle both to social inclusion and labour market integration; and (v) open and competitive product and services markets. Reduce the tax wedge on labour, particularly on low-earners, in a budgetary-neutral way to foster job creation.

3. Pursue fiscal policies in full respect of the SGP. For 2016, the objective of a broadly neutral aggregate fiscal stance in the euro area appears appropriate in order to reflect a balance between long-term fiscal sustainability and short-term macroeconomic stabilisation. Looking towards 2017, reduce public debt to restore fiscal buffers and avoid pro-cyclicality. Differentiate the fiscal effort by individual Member States in line with their respective positions with regard to the requirements under the SGP while considering stabilisation needs, as well as taking into account possible spillovers across euro area Member States. To this end, review the euro area fiscal stance in the context of the stability programmes and the draft budgetary plans.

4. Facilitate the gradual reduction of banks' non-performing loans and improve insolvency proceedings for businesses and households. In Member States with large stocks of private debt, promote an orderly deleveraging, including by facilitating the resolution of unviable private debt.

5. Work towards completing EMU in an open and transparent manner, while fully supporting the internal market, and further exploring the legal, economic and political aspects of the more long-term measures contained in the Five Presidents' Report.

Done at …,

For the Council
The President